# Business Implementation

# Strategic Management - Meaning and Important Concepts



## Strategic Management - An Introduction

Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm’s performance. The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a [SWOT Analysis](http://www.managementstudyguide.com/swot-analysis.htm) (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn’t ignore the threats.

Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage.

It is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving.

Strategic management is a continuous process that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Strategic Management gives a broader perspective to the employees of an organization and they can better understand how their job fits into the entire organizational plan and how it is co-related to other organizational members. It is nothing but the art of managing employees in a manner which maximizes the ability of achieving business objectives. The employees become more trustworthy, more committed and more satisfied as they can co-relate themselves very well with each organizational task. They can understand the reaction of environmental changes on the organization and the probable response of the organization with the help of strategic management. Thus the employees can judge the impact of such changes on their own job and can effectively face the changes. The managers and employees must do appropriate things in appropriate manner. They need to be both effective as well as efficient.

One of the major role of strategic management is to incorporate various functional areas of the organization completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objectives of the organization.

## Features of Strategy



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| 1. Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment. 2. Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future. 3. Strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict the employee behavior.   **Strategy is a well defined roadmap of an organization**. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization’s strengths and to minimize the strengths of the competitors.  Strategy, in short, bridges the gap between “where we are” and “where we want to be”. |

## Strategic Management Process - Meaning, Steps and Components

The strategic management process means defining the organization’s strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance.

Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises it’s competitors; and fixes goals to meet all the present and future competitor’s and then reassesses each strategy.

**Strategic management process has following four steps:**

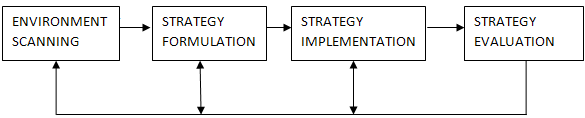
[*Environmental Scanning*](http://www.managementstudyguide.com/environmental-scanning.htm)**-** Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

[*Strategy Formulation*](http://www.managementstudyguide.com/strategy-formulation-process.htm)**-** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.

[*Strategy Implementation*](http://www.managementstudyguide.com/strategy-implementation.htm)**-** Strategy implementation implies making the strategy work as intended or putting the organization’s chosen strategy into action. Strategy implementation includes designing the organization’s structure, distributing resources, developing decision making process, and managing human resources.

[*Strategy Evaluation*](http://www.managementstudyguide.com/strategy-evaluation.htm)**-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as it’s implementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation’s requirement, so as to make essential changes.

  
**Components of Strategic Management Process**

[Strategic management](http://www.managementstudyguide.com/strategic-management.htm) is an ongoing process. Therefore, it must be realized that each component interacts with the other components and that this interaction often happens in chorus.

## Strategy Formulation vs Strategy Implementation

Following are the main differences between Strategy Formulation and Strategy Implementation-

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| **Strategy Formulation** | **Strategy Implementation** |
| Strategy Formulation includes planning and decision-making involved in developing organization’s strategic goals and plans. | Strategy Implementation involves all those means related to executing the strategic plans. |
| In short, Strategy Formulation is **placing the Forces before the action**. | In short, Strategy Implementation is **managing forces during the action**. |
| Strategy Formulation is an **Entrepreneurial Activity** based on strategic decision-making. | Strategic Implementation is mainly an **Administrative Task** based on strategic and operational decisions. |
| Strategy Formulation emphasizes on **effectiveness**. | Strategy Implementation emphasizes on **efficiency**. |
| Strategy Formulation is a **rational process**. | Strategy Implementation is basically an **operational process**. |
| Strategy Formulation requires co-ordination among few individuals. | Strategy Implementation requires co-ordination among many individuals. |
| Strategy Formulation requires a great deal of **initiative and logical skills**. | Strategy Implementation requires specific **motivational and leadership traits**. |
| Strategic Formulation precedes Strategy Implementation. | Strategy Implementation follows Strategy Formulation. |

## Strategic Decisions

Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

The differences between Strategic, Administrative and Operational decisions can be summarized as follows:

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| **Strategic Decisions** | **Administrative Decisions** | **Operational Decisions** |
| Strategic decisions are long-term decisions. | Administrative decisions are taken daily. | Operational decisions are not frequently taken. |
| These are considered where The future planning is concerned. | These are short-term based Decisions. | These are medium-period based decisions. |
| Strategic decisions are taken in Accordance with organizational mission and vision. | These are taken according to strategic and operational Decisions. | These are taken in accordance with strategic and administrative decision. |
| These are related to overall Counter planning of all Organization. | These are related to working of employees in an Organization. | These are related to production. |
| These deal with organizational Growth. | These are in welfare of employees working in an organization. | These are related to production and factory growth. |

# Core Strategy Tools

## Porter’s Five Forces Model of Competition

**[](https://www.mindtools.com/pages/article/newSTR_60.htm)**

Michael Porter (Harvard Business School Management Researcher) designed various vital frameworks for developing an organization’s strategy. One of the most renowned among managers making strategic decisions is the five competitive forces model that determines industry structure. According to Porter, the nature of competition in any industry is personified in the following five forces:

* Threat of new potential entrants
* Threat of substitute product/services
* Bargaining power of suppliers
* Bargaining power of buyers
* Rivalry among current competitors

**Porter's Five Forces**



The five forces mentioned above are very significant from point of view of strategy formulation. The potential of these forces differs from industry to industry. These forces jointly determine the profitability of industry because they shape the prices which can be charged, the costs which can be borne, and the investment required to compete in the industry. Before making strategic decisions, the managers should use the five forces framework to determine the competitive structure of industry.

Let’s discuss the five factors of Porter’s model in detail:

**Risk of entry by potential competitors:** Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so if given a choice. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs. The threat of entry by potential competitors is partially a function of extent of barriers to entry. The various barriers to entry are:

* Economies of scale
* Brand loyalty
* Government Regulation
* Customer Switching Costs
* Absolute Cost Advantage
* Ease in distribution
* Strong Capital base

Power is also affected by the ability of people to enter your market. If it costs little in time or money to enter your market and compete effectively, if there are few economies of scale in place, or if you have little protection for your key technologies, then new competitors can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favorable position and take fair advantage of it.

**Rivalry among current competitors:** Rivalry refers to the competitive struggle for market share between firms in an industry. Extreme rivalry among established firms poses a strong threat to profitability. The strength of rivalry among established firms within an industry is a function of following factors:

* Extent of exit barriers
* Amount of fixed cost
* Competitive structure of industry
* Presence of global customers
* Absence of switching costs
* Growth Rate of industry
* Demand conditions

What is important here is the number and capability of your competitors. If you have many competitors, and they offer equally attractive products and services, then you'll most likely have little power in the situation, because suppliers and buyers will go elsewhere if they don't get a good deal from you. On the other hand, if no-one else can do what you do, then you can often have tremendous strength.

**Bargaining Power of Buyers:** Buyers refer to the customers who finally consume the product or the firms who distribute the industry’s product to the final consumers. Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firms cost in the industry by demanding better quality and service of product. Strong buyers can extract profits out of an industry by lowering the prices and increasing the costs. They purchase in large quantities. They have full information about the product and the market. They emphasize upon quality products. They pose credible threat of backward integration. In this way, they are regarded as a threat.

Here you ask yourself how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else, and so on. If you deal with few, powerful buyers, then they are often able to dictate terms to you.

**Bargaining Power of Suppliers:** Suppliers refer to the firms that provide inputs to the industry. Bargaining power of the suppliers refer to the potential of the suppliers to increase the prices of inputs (labour, raw materials, services, etc) or the costs of industry in other ways. Strong suppliers can extract profits out of an industry by increasing costs of firms in the industry. Suppliers products have a few substitutes. Strong suppliers’ products are unique. They have high switching cost. Their product is an important input to buyer’s product. They pose credible threat of forward integration. Buyers are not significant to strong suppliers. In this way, they are regarded as a threat.

**Threat of Substitute products:** Substitute products refer to the products having ability of satisfying customers needs effectively. Substitutes pose a ceiling (upper limit) on the potential returns of an industry by putting a setting a limit on the price that firms can charge for their product in an industry. Lesser the number of close substitutes a product has, greater is the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal). For example, if you supply a unique software product that automates an important process, people may substitute by doing the process manually or by outsourcing it. If substitution is easy and substitution is viable, then this weakens your power.

The power of Porter’s five forces varies from industry to industry. Whatever be the industry, these five forces influence the profitability as they affect the prices, the costs, and the capital investment essential for survival and competition in industry. This five forces model also help in making strategic decisions as it is used by the managers to determine industry’s competitive structure.

Porter ignored, however, a sixth significant factor- complementaries. This term refers to the reliance that develops between the companies whose products work is in combination with each other. Strong complementors might have a strong positive effect on the industry. Also, the five forces model overlooks the role of innovation as well as the significance of individual firm differences. It presents a stagnant view of competition.

### The Competitive Analysis

The Competitive Analysis section of your business plan is devoted to analyzing your competition--both your current competition and potential competitors who might enter your market.

Every business has competition. Understanding the strengths and weaknesses of your competition--or potential competition--is critical to making sure your business survives and grows. While you don't need to hire a private detective, you do need to thoroughly assess your competition on a regular basis even if you only plan to run a small business.

In fact, small businesses can be especially vulnerable to competition, especially when new companies enter a marketplace.

Competitive analysis can be incredibly complicated and time-consuming... but it doesn't have to be. Here is a simple process you can follow to identify, analyze, and determine the strengths and weaknesses of your competition.

Profile *Current* Competitors

First develop a basic profile of each of your current competitors. For example, if you plan to open an office supply store you may have three competing stores in your market.

Online retailers will also provide competition, but thoroughly analyzing those companies will be less valuable unless you also decide you want to sell office supplies online. (Although it's also possible that they--or, say, Amazon--are your *real* competition. Only you can determine that.)

To make the process easier, stick to analyzing companies you will directly compete with. If you plan to set up an accounting firm, you will compete with other accounting firms in your area. If you plan to open a clothing store, you will compete with other clothing retailers in your area.

Again, if you run a clothing store you also compete with online retailers, but there is relatively little you can do about that type of competition other than to work hard to compete in other ways: great service, friendly salespeople, convenient hours, truly understanding your customers, etc.

To gather information, you can also:

* Check out their websites and marketing materials. Most of the information you need about products, services, prices, and company objectives should be readily available. If that information is not available, you may have identified a weakness.
* Visit their locations. Take a look around. Check out sales materials and promotional literature. Have friends stop in or call to ask for information.
* Evaluate their marketing and advertising campaigns. How a company advertises creates a great opportunity to uncover the objectives and strategies of that business. Advertising should help you quickly determine how a company positions itself, who it markets to, and what strategies it employs to reach potential customers.
* Browse. Search the Internet for news, public relations, and other mentions of your competition. Search blogs and Twitter feeds as well as review and recommendation sites. While most of the information you find will be anecdotal and based on the opinion of just a few people, you may at least get a sense of how some consumers perceive your competition. Plus you may also get advance warning about expansion plans, new markets they intend to enter, or changes in management.

Keep in mind competitive analysis does more than help you understand your competition. Competitive analysis can also help you identify changes you should make to *your* business strategies. Learn from competitor strengths, take advantage of competitor's weaknesses, and apply the same analysis to your own business plan.

You might be surprised by what you can learn about your business by evaluating other businesses.

Identify *Potential* Competitors

It can be tough to predict when and where new competitors may pop up. For starters, regularly search for news on your industry, your products, your services, and your target market.

But there are other ways to predict when competition may follow you into a market. Other people may see the same opportunity you see. Think about your business and your industry, and if the following conditions exist, you may face competition does the road:

* The industry enjoys relatively high profit margins
* Entering the market is relatively easy and inexpensive
* The market is growing--the more rapidly it is growing the greater the risk of competition
* Supply and demand is off--supply is low and demand is high
* Very little competition exists, so there is plenty of "room" for others to enter the market

In general terms, if serving your market seems easy you can safely assume competitors will enter your market. A good business plan anticipates and accounts for new competitors.

Example:

The Competitive Analysis section for our cycling rental business could start something like this:

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*Primary Competitors*

Our nearest and only competition is the bike shops in Harrisonburg, VA. Our next closest competitor is located over 100 miles away.

The in-town bike shops will be strong competitors. They are established businesses with excellent reputations. On the other hand, they offer inferior-quality equipment and their location is significantly less convenient.

*Secondary Competitors*

We do not plan to sell bicycles for at least the first two years of operation. However, sellers of new equipment do indirectly compete with our business since a customer who buys equipment no longer needs to rent equipment.

Later, when we add new equipment sales to our operation, we will face competition from online retailers. We will compete with new equipment retailers through personalized service and targeted marketing to our existing customer base, especially through online initiatives.

*Opportunities*

By offering mid- to high-end quality equipment, we provide customers the opportunity to "try out" bikes they may wish to purchase at a later date, providing additional incentive (besides cost savings) to use our service.

Offering drive-up, express rental return services will be seen as a much more attractive option compared to the hassle of renting bikes in Harrisonburg and transporting them to intended take-off points for rides.

Online initiatives like online renewals and online reservations enhances customer convenience and positions us as a cutting-edge supplier in a market largely populated, especially in the cycling segment, by customers who tend to be early technology adapters.

*Risks*

Renting bikes and cycling equipment may be perceived by some of our target market as a commodity transaction. If we do not differentiate ourselves in terms of quality, convenience, and service, we could face additional competition from other entrants to the market.

One of the bike shops in Harrisonburg is a subsidiary of a larger corporation with significant financial assets. If we, as hoped, carve out a significant market share, the corporation may use those assets to increase service, improve equipment quality, or cut prices.

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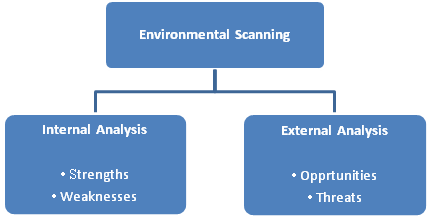
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| While your business plan is primarily intended to convince *you* that your business makes sense, keep in mind most investors look closely at your competitive analysis. A common mistake made by entrepreneurs is assuming they will simply "do it better" than any competition.  Experienced businesspeople know you will face stiff competition: showing you understand your competition, understand your strengths and weaknesses relative to that competition, and that you understand you will have to adapt and change based on that competition, is critical.  And, even if you do not ever plan to seek financing or bring in investors, you absolutely must know your competition.  The Competitive Analysis section helps you answer the "Against who?" question. |

## SWOT

**[](https://www.mindtools.com/community/Bite-SizedTraining/SettingGoals.php)**

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| **SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats**. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control. |

**SWOT ANALYSIS FRAMEWORK**



**SWOT Analysis** is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Originated by Albert S Humphrey in the 1960s, the tool is as useful now as it was then. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization’s resources and capabilities to the requirements of the environment in which the firm operates.

In other words, it is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment. It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the firm operates helps in forecasting/predicting the changing trends and also helps in including them in the decision-making process of the organization.

What makes SWOT particularly powerful is that, with a little thought, it can help you uncover opportunities that you are well-placed to exploit. And by understanding the weaknesses of your business, you can manage and eliminate threats that would otherwise catch you unawares.

More than this, by looking at yourself and your competitors using the SWOT framework, you can start to craft a strategy that helps you distinguish yourself from your competitors, so that you can compete successfully in your market.

### How to Use the Tool

Strengths

Strengths are the qualities that enable us to accomplish the organization’s mission. These are the basis on which continued success can be made and continued/sustained.

Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency.

Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

* What advantages does your organization have?
* What do you do better than anyone else?
* What unique or lowest-cost resources can you draw upon that others can't?
* What do people in your market see as your strengths?
* What factors mean that you "get the sale"?
* What is your organization's [**Unique Selling Proposition**](https://www.mindtools.com/pages/article/newTMC_11.htm)(USP)?

Consider your strengths from both an internal perspective, and from the point of view of your customers and people in your market.

Also, if you're having any difficulty identifying strengths, try writing down a list of your organization's characteristics. Some of these will hopefully be strengths!

When looking at your strengths, think about them in relation to your competitors. For example, if all of your competitors provide high quality products, then a high quality production process is not a strength in your organization's market, it's a necessity.

Weaknesses

Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet.

Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

* What could you improve?
* What should you avoid?
* What are people in your market likely to see as weaknesses?
* What factors lose you sales?

Again, consider this from an internal and external basis: Do other people seem to perceive weaknesses that you don't see? Are your competitors doing any better than you?

It's best to be realistic now, and face any unpleasant truths as soon as possible.

Opportunities

Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

* What good opportunities can you spot?
* What interesting trends are you aware of?
* Useful opportunities can come from such things as:
  + Changes in technology and markets on both a broad and narrow scale.
  + Changes in government policy related to your field.
  + Changes in social patterns, population profiles, lifestyle changes, and so on.
  + Local events.

**Tip:**

A useful approach when looking at opportunities is to look at your strengths and ask yourself whether these open up any opportunities. Alternatively, look at your weaknesses and ask yourself whether you could open up opportunities by eliminating them.

Threats

Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization’s business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

* What obstacles do you face?
* What are your competitors doing?
* Are quality standards or specifications for your job, products or services changing?
* Is changing technology threatening your position?
* Do you have bad debt or cash-flow problems?
* Could any of your weaknesses seriously threaten your business?

**Tip:**

When looking at opportunities and threats, [PESTEL Analysis](https://www.mindtools.com/pages/article/newTMC_09.htm) can help to ensure that you don't overlook external factors, such as new government regulations, or technological changes in your industry.

Further SWOT Tips

If you're using SWOT as a serious tool (rather than as a casual "warm up" for strategy formulation), make sure you're rigorous in the way you apply it:

Only accept precise, verifiable statements ("Cost advantage of $10/ton in sourcing raw material x", rather than "Good value for money").

Ruthlessly prune long lists of factors, and [prioritize](https://www.mindtools.com/pages/article/newHTE_92.htm) them, so that you spend your time thinking about the most significant factors.

Make sure that options generated are carried through to later stages in the strategy formation process.

Apply it at the right level – for example, you might need to apply the tool at a product or product-line level, rather than at the much vaguer whole company level.

Use it in conjunction with other [strategy tools](https://www.mindtools.com/pages/main/newMN_STR.htm) (for example, [USP Analysis](https://www.mindtools.com/pages/article/newTMC_11.htm) and [Core Competence Analysis](https://www.mindtools.com/pages/article/newTMC_94.htm) ) so that you get a comprehensive picture of the situation you're dealing with.

### Advantages of SWOT Analysis

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner-

* It is a source of information for strategic planning.
* Builds organization’s strengths.
* Reverse its weaknesses.
* Maximize its response to opportunities.
* Overcome organization’s threats.
* It helps in identifying core competencies of the firm.
* It helps in setting of objectives for strategic planning.
* It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm’s resources and capabilities with the competitive environment in which the firm operates.

### Limitations of SWOT Analysis

SWOT Analysis is not free from its limitations. It may cause organizations to view circumstances as very simple because of which the organizations might overlook certain key strategic contact which may occur. Moreover, categorizing aspects as strengths, weaknesses, opportunities and threats might be very subjective as there is great degree of uncertainty in market. SWOT Analysis does stress upon the significance of these four aspects, but it does not tell how an organization can identify these aspects for itself.

There are certain limitations of SWOT Analysis which are not in control of management. These include-

* Price increase;
* Inputs/raw materials;
* Government legislation;
* Economic environment;
* Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include-

* Insufficient research and development facilities;
* Faulty products due to poor quality control;
* Poor industrial relations;
* Lack of skilled and efficient labour; etc

SWOT Analysis Worksheet

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| **Strengths**  What do you do well?  What unique resources can you draw on?  What do others see as your strengths? | **Weaknesses**  What could you improve?  Where do you have fewer resources than others?  What are others likely to see as weaknesses? |
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| **Opportunities**  What opportunities are open to you?  What trends could you take advantage of?  How can you turn your strengths into opportunities? | **Threats**  What threats could harm you?  What is your competition doing?  What threats do your weaknesses expose you to? |
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## PESTEL Analysis

A PESTEL analysis is a framework or tool used by marketers to analyse and monitor the external marketing environment – opprtunities and threats- factors that have an impact on an organisation.

Changes in your business environment can create great opportunities for your organization – and cause significant threats.

For example, opportunities can come from new technologies that help you reach new customers, from new funding streams that allow you to invest in better equipment, and from changed government policies that open up new markets.

Threats can include deregulation that exposes you to intensified competition; a shrinking market; or increases to interest rates, which can cause problems if your company is burdened by debt.

PESTEL Analysis is a simple and widely used tool that helps you analyze the Political, Economic, Socio-Cultural, Technological, Environmental and Legal changes in your business environment. This helps you understand the "big picture" forces of change that you're exposed to, and, from this, take advantage of the opportunities that they present.

### About the Tool

Harvard professor Francis Aguilar is thought to be the creator of PEST Analysis. He included a scanning tool called ETPS in his 1967 book, "[Scanning the Business Environment](http://www.amazon.com/Scanning-Business-Environment-Francis-Aguilar/dp/B000VF9852/ref=sr_1_1?s=books&ie=UTF8&qid=1358936612&sr=1-1&keywords=Scanning+the+Business+Environment)." The name was later tweaked to create the current acronym.

PESTEL Analysis is useful for four main reasons:

It helps you to spot business (or personal opportunities), and it gives you advanced warning of significant threats.

It reveals the direction of change within your business environment. This helps you shape what you're doing, so that you work with change, rather than against it.

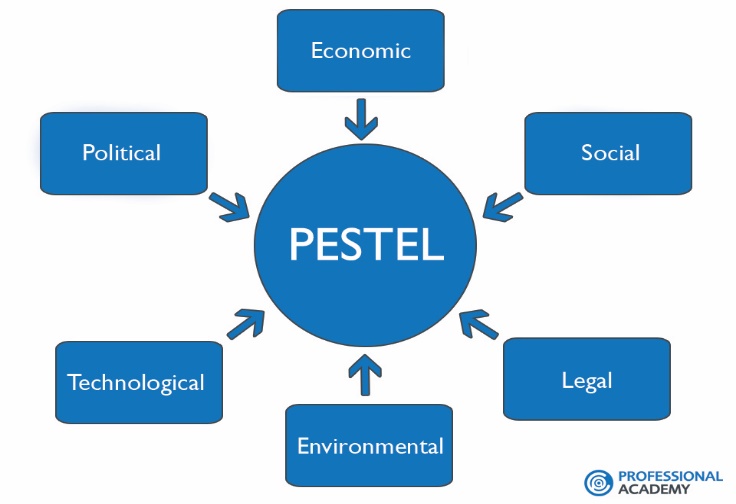
It helps you avoid starting projects that are likely to fail, for reasons beyond your control.

It can help you break free of unconscious assumptions when you enter a new country, region, or market; because it helps you develop an objective view of this new environment.

**PESTEL stands for:**

* **P – Political**
* **E – Economic**
* **S – Social**
* **T – Technological**
* **E – Environmental**
* **L – Legal**

Lets look at each of these macro-environmental factors in turn.



All the external environmental factors (PESTEL factors)

**Political Factors**

These are all about how and to what degree a government intervenes in the economy. This can include – government policy, political stability or instability in overseas markets, foreign trade policy, tax policy, labour law, environmental law, trade restrictions and so on.

It is clear from the list above that political factors often have an impact on organisations and how they do business. Organisations need to be able to respond to the current and anticipated future legislation, and adjust their marketing policy accordingly.

* When is the country's next local, state, or national election? How could this change government or regional policy?
* Who are the most likely contenders for power? What are their views on business policy, and on other policies that affect your organization?
* Depending on the country, how well developed are property rights and the rule of law, and how widespread are corruption and organized crime? How are these situations likely to change, and how is this likely to affect you?
* Could any pending legislation or taxation changes affect your business, either positively or negatively?
* How will business regulation, along with any planned changes to it, affect your business? And is there a trend towards regulation or deregulation?
* How does government approach corporate policy, corporate social responsibility, environmental issues, and customer protection legislation? What impact does this have, and is it likely to change?
* What is the likely timescale of proposed legislative changes?
* Are there any other political factors that are likely to change?

**Economic Factors**

Economic factors have a significant impact on how an organisation does business and also how profitable they are. Factors include – economic growth, interest rates, exchange rates, inflation, disposable income of consumers and businesses and so on.

These factors can be further broken down into macro-economical and micro-economical factors. Macro-economical factors deal with the management of demand in any given economy. Governments use interest rate control, taxation policy and government expenditure as their main mechanisms they use for this.

Micro-economic factors are all about the way people spend their incomes. This has a large impact on B2C organisations in particular.

* How stable is the current economy? Is it growing, stagnating, or declining?
* Are key exchange rates stable, or do they tend to vary significantly?
* Are customers' levels of disposable income rising or falling? How is this likely to change in the next few years?
* What is the unemployment rate? Will it be easy to build a skilled workforce? Or will it be expensive to hire skilled labor?
* Do consumers and businesses have easy access to credit? If not, how will this affect your organization?
* How is globalization affecting the economic environment?
* Are there any other economic factors that you should consider?

**Social Factors**

Also known as socio-cultural factors, are the areas that involve the shared belief and attitudes of the population. These factors include – population growth, age distribution, health consciousness, career attitudes and so on. These factors are of particular interest as they have a direct effect on how marketers understand customers and what drives them.

* What is the population's growth rate and age profile? How is this likely to change?
* Are generational shifts in attitude likely to affect what you're doing?
* What are your society's levels of health, education, and social mobility? How are these changing, and what impact does this have?
* What employment patterns, job market trends, and attitudes toward work can you observe? Are these different for different age groups?
* What social attitudes and social taboos could affect your business? Have there been recent socio-cultural changes that might affect this?
* How do religious beliefs and lifestyle choices affect the population?
* Are any other socio-cultural factors likely to drive change for your business?

**Technological Factors**

We all know how fast the technological landscape changes and how this impacts the way we market our products. Technological factors affect marketing and the management thereof in three distinct ways:

* New ways of producing goods and services
* New ways of distributing goods and services
* New ways of communicating with target markets
* Are there any new technologies that you could be using?
* Are there any new technologies on the horizon that could radically affect your work or your industry?
* Do any of your competitors have access to new technologies that could redefine their products?
* In which areas do governments and educational institutions focus their research? Is there anything you can do to take advantage of this?
* How have infrastructure changes affected work patterns (for example, levels of remote working)?
* Are there existing technological hubs that you could work with or learn from?
* Are there any other technological factors that you should consider?

**Environmental Factors**

These factors have only really come to the forefront in the last fifteen years or so. They have become important due to the increasing scarcity of raw materials, polution targets, doing business as an ethical and sustainable company, carbon footprint targets set by governments (this is a good example were one factor could be classes as political and environmental at the same time). These are just some of the issues marketers are facing within this factor. More and more consumers are demanding that the products they buy are sourced ethically, and if possible from a sustainable source.

**Legal Factors**

Legal factors include - health and safety, equal opportunities, advertising standards, consumer rights and laws, product labelling and product safety. It is clear that companies need to know what is and what is not legal in order to trade successfully. If an organisation trades globally this becomes a very tricky area to get right as each country has its own set of rules and regulations.

After you have completed a PESTEL analysis you should be able to use this to help you identify the strengths and weaknesses for a [SWOT analysis](http://www.professionalacademy.com/news/marketing-theories-swot-analysis).

**Note:**

PESTEL analysis is often linked with [SWOT Analysis](https://www.mindtools.com/pages/article/newTMC_05.htm), however, the two tools have different areas of focus. PESTEL Analysis looks at "big picture" factors that might influence a decision, a market, or a potential new business. SWOT Analysis explores these factors at a business, product-line or product level.

These tools complement one another and are often used together.

Opportunities

Once you've identified the changes that are taking place in your business environment, it's time to look at each change, and brainstorm the opportunities that this could open up for you. For example, could it help you develop new products, open up new markets, or help you make processes more efficient?

Threats

It's also important to think about how these changes could undermine your business. If you understand this early enough, you may be able to avoid these problems, or minimize their impact.

For example, if a core part of your market is in demographic decline, could you open up other areas of the market? Or if technology is threatening a key product, can you master that technology and improve the product?

Take Action

Where you have identified significant opportunities, build the actions you'll take to exploit them into your [Business Plan](https://www.mindtools.com/pages/article/newSTR_63.htm). Where you've identified significant risks, take appropriate action to manage or eliminate them.

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| **Key Points**  PESTEL Analysis helps you understand the Political, Economic, Social, Technological, Environmental and Legal changes that will shape your business environment.  You can use these headings to brainstorm the "big picture" characteristics of a business environment (this could be a country, a region, or a new or existing market), and, from this, draw conclusions about the significant forces of change operating within it.  This provides a context for more detailed planning, within which you will be able to minimize risk and take full advantage of the opportunities that present themselves. |

## Porter's Generic Strategies

Choosing Your Route to Success



Airlines use different strategies to achieve competitive advantage.

Which do you prefer when you fly: a cheap, no-frills airline, or a more expensive operator with fantastic service levels and maximum comfort? And would you ever consider going with a small company which focuses on just a few routes? The choice is up to you, of course. But the point we're making here is that when you come to book a flight, there are some very different options available.

Why is this so? The answer is that each of these airlines has chosen a different way of achieving competitive advantage in a crowded marketplace.

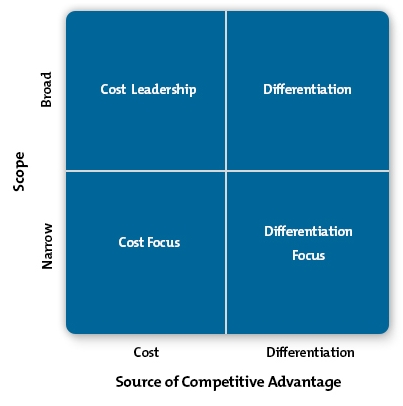
The no-frills operators have opted to cut costs to a minimum and pass their savings on to customers in lower prices. This helps them grab market share and ensure their planes are as full as possible, further driving down cost. The luxury airlines, on the other hand, focus their efforts on making their service as wonderful as possible, and the higher prices they can command as a result make up for their higher costs.

Meanwhile, smaller airlines try to make the most of their detailed knowledge of just a few routes to provide better or cheaper services than their larger, international rivals.

### Generic Strategies

These three approaches are examples of "generic strategies," because they can be applied to products or services in all industries, and to organizations of all sizes. They were first set out by Michael Porter in 1985 in his book, "[Competitive Advantage: Creating and Sustaining Superior Performance](http://www.amazon.com/Competitive-Advantage-Michael-Porter/dp/0743260872/)."

Porter called the generic strategies "Cost Leadership" (no frills), "Differentiation" (creating uniquely desirable products and services) and "Focus" (offering a specialized service in a niche market). He then subdivided the Focus strategy into two parts: "Cost Focus" and "Differentiation Focus." These are shown in Figure below.



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| Tip:  The terms "Cost Focus" and "Differentiation Focus" can be a little confusing, as they could be interpreted as meaning "a focus on cost" or "a focus on differentiation." Remember that Cost Focus means emphasizing cost-minimization within a focused market, and Differentiation Focus means pursuing strategic differentiation within a focused market. |

The Cost Leadership Strategy

Porter's generic strategies are ways of gaining competitive advantage – in other words, developing the "edge" that gets you the sale and takes it away from your competitors. There are two main ways of achieving this within a Cost Leadership strategy:

1. Increasing profits by reducing costs, while charging industry-average prices.
2. Increasing market share through charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.

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| Tip:  Remember that Cost Leadership is about minimizing the cost to the organization of delivering products and services. The cost or price paid by the customer is a separate issue! |

The Cost Leadership strategy is exactly that – it involves being the leader in terms of cost in your industry or market. Simply being amongst the lowest-cost producers is not good enough, as you leave yourself wide open to attack by other low-cost producers who may undercut your prices and therefore block your attempts to increase market share.

You therefore need to be confident that you can achieve and maintain the number one position before choosing the Cost Leadership route. Companies that are successful in achieving Cost Leadership usually have:

* Access to the capital needed to invest in technology that will bring costs down.
* Very efficient logistics.
* A low-cost base (labor, materials, facilities), and a way of sustainably cutting costs below those of other competitors.

The greatest risk in pursuing a Cost Leadership strategy is that these sources of cost reduction are not unique to you, and that other competitors copy your cost reduction strategies. This is why it's important to continuously find ways of reducing every cost. One successful way of doing this is by adopting the Japanese [Kaizen](https://www.mindtools.com/pages/article/newSTR_97.htm) philosophy of "continuous improvement."

The Differentiation Strategy

Differentiation involves making your products or services different from and more attractive than those of your competitors. How you do this depends on the exact nature of your industry and of the products and services themselves, but will typically involve features, functionality, durability, support, and also brand image that your customers value.

To make a success of a Differentiation strategy, organizations need:

* Good research, development and innovation.
* The ability to deliver high-quality products or services.
* Effective sales and marketing, so that the market understands the benefits offered by the differentiated offerings.

Large organizations pursuing a differentiation strategy need to stay agile with their new product development processes. Otherwise, they risk attack on several fronts by competitors pursuing Focus Differentiation strategies in different market segments.

The Focus Strategy

Companies that use Focus strategies concentrate on particular niche markets and, by understanding the dynamics of that market and the unique needs of customers within it, develop uniquely low-cost or well-specified products for the market. Because they serve customers in their market uniquely well, they tend to build strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors.

As with broad market strategies, it is still essential to decide whether you will pursue Cost Leadership or Differentiation once you have selected a Focus strategy as your main approach: Focus is not normally enough on its own.

But whether you use Cost Focus or Differentiation Focus, the key to making a success of a generic Focus strategy is to ensure that you are adding something extra as a result of serving only that market niche. It's simply not enough to focus on only one market segment because your organization is too small to serve a broader market (if you do, you risk competing against better-resourced broad market companies' offerings).

The "something extra" that you add can contribute to reducing costs (perhaps through your knowledge of specialist suppliers) or to increasing differentiation (though your deep understanding of customers' needs).

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| Tip:  Generic strategies apply to not-for-profit organizations too. |

A not-for-profit can use a Cost Leadership strategy to minimize the cost of getting donations and achieving more for its income, while one pursuing a Differentiation strategy will be committed to the very best outcomes, even if the volume of work it does as a result is smaller.

Local charities are great examples of organizations using Focus strategies to get donations and contribute to their communities.

### Choosing the Right Generic Strategy

Your choice of which generic strategy to pursue underpins every other strategic decision you make, so it's worth spending time to get it right.

But you doneed to make a decision: Porter specifically warns against trying to "hedge your bets" by following more than one strategy. One of the most important reasons why this is wise advice is that the things you need to do to make each type of strategy work appeal to different types of people. Cost Leadership requires a very detailed internal focus on processes. Differentiation, on the other hand, demands an outward-facing, highly creative approach.

So, when you come to choose which of the three generic strategies is for you, it's vital that you take your organization's competencies and strengths into account.

Use the following steps to help you choose.

Step 1:

For each generic strategy, carry out a [SWOT Analysis](https://www.mindtools.com/pages/article/newTMC_05.htm) of your strengths and weaknesses, and the opportunities and threats you would face, if you adopted that strategy.

Having done this, it may be clear that your organization is unlikely to be able to make a success of some of the generic strategies.

Step 2:

Use [Five Forces Analysis](https://www.mindtools.com/pages/article/newTMC_08.htm) to understand the nature of the industry you are in.

Step 3:

Compare the SWOT Analyses of the viable strategic options with the results of your Five Forces analysis. For each strategic option, ask yourself how you could use that strategy to:

* Reduce or manage supplier power.
* Reduce or manage buyer/customer power.
* Come out on top of the competitive rivalry.
* Reduce or eliminate the threat of substitution.
* Reduce or eliminate the threat of new entry.

Select the generic strategy that gives you the strongest set of options.

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| Key Points  According to Porter's Generic Strategies model, there are three basic strategic options available to organizations for gaining competitive advantage. These are: Cost Leadership, Differentiation and Focus.  Organizations that achieve Cost Leadership can benefit either by gaining market share through lowering prices (whilst maintaining profitability) or by maintaining average prices and therefore increasing profits. All of this is achieved by reducing costs to a level below those of the organization's competitors.  Companies that pursue a Differentiation strategy win market share by offering unique features that are valued by their customers. Focus strategies involve achieving Cost Leadership or Differentiation within niche markets in ways that are not available to more broadly-focused players. |

# Competitive advantage

## USP Analysis

The Unique Selling Proposition: Finding Your "Competitive Edge"



For years, business trainers have stressed the importance of "USPs" (Unique Selling Propositions). Your USP is the unique thing that you can offer that your competitors can't. It's your "Competitive Edge." It's the reason why customers buy from you, and you alone.

USPs have helped many companies succeed. And they can help you too when you're marketing yourself (when seeking a promotion, finding a new job, or just making sure that you get the recognition you deserve.) If you don't have a USP, you're condemned to a struggle for survival – that way lies hard work and little reward. However, USPs are often extremely difficult to find. And as soon as one company establishes a successful USP in a market, competitors rush to copy it.

### How to Use the Tool

**1. Understand the Characteristics That Customers Value**

First, brainstorm what customers value about your product or services, and about those of your competitors. Move beyond the basics that are common to all suppliers in the industry, and look at the criteria that customers use to decide which product or service to buy.

As with all brainstorming, by involving knowledgeable people in the process, you'll improve the range of characteristics you'll identify. So talk to salespeople, customer service teams and, most importantly, to customers themselves.

**2. Rank Yourself and Your Competitors by These Criteria**

Now, identify your top competitors. Being as objective as you can, score yourself and each of your competitors out of 10 for each characteristic. Where possible, base your scores on objective data. Where this isn't possible, do your best to see things from a customer's perspective and then make your best guess.

**3. Identify Where You Rank Well**

Plot these points on a graph. This helps you spot different competitors' strengths and weaknesses.

And, from this, develop a simple, easily communicated statement of your USP.

**Tip:**

When you identify your USP, make sure that it's something that really matters to potential customers. There's no point in being the best in the industry for something that they don't care about.

**4. Preserve Your USP (and use it!)**

The final step is to make sure that you can defend your USP. You can be sure that as soon as you start to promote a USP, your competitors will do what they can to neutralize it. For example, if you've got the best website, they'll bring in a better web designer. Or if you've got a great new feature in your product, you'll see it in theirs next year.

If you've established a USP, it makes sense to invest to defend it – that way, competitors will struggle to keep up: By the time they've improved, you've already moved on to the next stage.

And once you've established a USP, make sure that the market knows about it!

**Example**

Dan Jackson, the new CEO of LPC Office Supplies, was worried. He was confused by the situation he'd inherited, and felt that the company was drifting. Part of this, he felt, was that the company had no distinctive market position. He decided to use USP Analysis to find one.

After talking to the company's biggest customers, Dan has identified the following criteria as important:

Price.

Quality of merchandise.

Range.

Catalog quality.

Website appearance and navigation.

Ease of ordering.

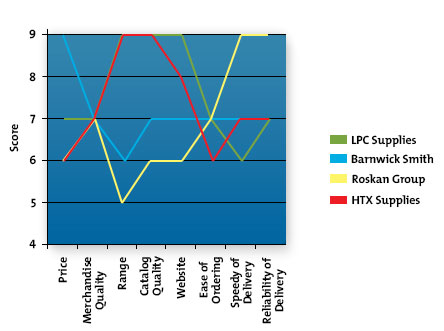
Speed of delivery.

Reliability of delivery.

He then ranks LPC and its competitors using the criteria that he had identified. Some criteria he assesses objectively, and on others he relies on instinct, market reputation and salespeople's reports. This gives him the information in the table below:

| **Criterion** | **LPC Supplies** | **Barnwick Smith** | **Roskan Group** | **HTX Supplies** |
| --- | --- | --- | --- | --- |
| Price | 7 | 9 | 6 | 6 |
| Quality | 7 | 7 | 7 | 7 |
| Range | 9 | 6 | 5 | 9 |
| Catalog Quality | 9 | 7 | 6 | 9 |
| Website | 9 | 7 | 6 | 8 |
| Ease of Ordering | 7 | 7 | 7 | 6 |
| Speed of Delivery | 6 | 7 | 9 | 7 |
| Reliability | 7 | 7 | 9 | 7 |

Using these rankings, Dan plots this graph:



As he does, different industry USPs start to become obvious. Barnwick Smith seems to operate a "pile 'em high and sell 'em cheap" policy. The Roskan Group seems to focus on fast, reliable delivery, possibly of urgent, essential materials.

Looking at these, Dan is sure that LPC can compete effectively against these competitors by emphasizing the breadth of its range and the quality of its catalog. However, HTX Supplies is more problematic: the curves are quite close. Even here, though, LPC seems to have better customer service and a better website. A USP of "The easy way to buy everything you need!" seems to work well.

Dan decides to invest in LPC's website and its customer service systems, with a view to opening up a clear gap between itself and HTX. And he then launches a marketing campaign stressing LPC's USP.

**Note:**

The technique of plotting criterion rankings as a line graph was introduced by Professors W. Chan Kim and Renée Mauborgne in their seminal Harvard Business Review article "Creating New Market Space," published in 1999.

**Key Points**

Using USP Analysis is a useful way to understand how people are competing in your industry. And it's essential for identifying your USP, so that you know what to build upon and sell to your customers.

USP Analysis is a four stage process:

First, you list the decision criteria (explicit and hidden) that customers of your industry use in making purchasing decisions.

Second, you rank yourself and your competitors by these criteria.

Third, you look at where you rank well, and craft a USP from this.

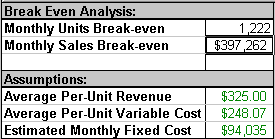
Finally, you look at how you will defend and build your USP as competition evolves.

# What Is a Break-Even Analysis?



The break-even analysis lets you determine what you need to sell, monthly or annually, to cover your costs of doing business—your break-even point.

Illustration 1 shows the break-even analysis table:

**Illustration 1: Break-even analysis**  


*The break-even analysis table calculates a break-even point based on fixed costs, variable costs per unit of sales, and revenue per unit of sales.*

## Understanding break-even analysis

The break-even analysis is not our favorite analysis because:

It is frequently mistaken for the payback period, the time it takes to recover an investment. There are variations on break even that make some people think we have it wrong. The one we do use is the most common, the most universally accepted, but not the only one possible.

It depends on the concept of fixed costs, a hard idea to swallow. Technically, a break-even analysis defines fixed costs as those costs that would continue even if you went broke. Instead, you may want to use your regular running fixed costs, including payroll and normal expenses. This will give you a better insight on financial realities. We call that “burn rate” these post-Internet days.

It depends on averaging your per-unit variable cost and per-unit revenue over the whole business.

However, whether we like it or not, this table is a mainstay of financial analysis. You may choose to leave it out, but really, a business plan would not be complete without it. And, although there are some other ways to do a break-even analysis, this is the most standard.

**Three assumptions of the break-even analysis**

The break-even analysis depends on three key assumptions:

**1. Average per-unit sales price (per-unit revenue):**

This is the price that you receive per unit of sales. Take into account sales discounts and special offers. Get this number from your sales forecast.

For non-unit based businesses, make the per-unit revenue one dollar and enter your costs as a percent of a dollar. The most common questions about this input relate to averaging many different products into a single estimate.

The analysis requires a single number, and if you build your sales forecast first, then you will have this number. You are not alone in this, the vast majority of businesses sell more than one item, and have to average for their break-even analysis.

**2. Average per-unit cost:**

This is the incremental cost, or variable cost, of each unit of sales. If you buy goods for resale, this is what you paid, on average, for the goods you sell. If you sell a service, this is what it costs you, per dollar of revenue or unit of service delivered, to deliver that service.

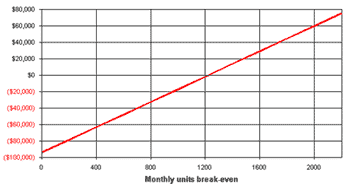
If you are using a units-based sales forecast table (for manufacturing and mixed business types), you can project unit costs from the sales forecast table. If you are using the basic sales forecast table for retail, service and distribution businesses, use a percentage estimate, e.g., a retail store running a 50 percent margin would have a per-unit cost of .5, and a per-unit revenue of 1.

**3. Monthly fixed costs:**

Technically, a break-even analysis defines fixed costs as costs that would continue even if you went broke. Instead, we recommend that you use your regular running fixed costs, including payroll and normal expenses (total monthly operating expenses). This will give you a better insight on financial realities.

If averaging and estimating is difficult, use your profit and loss table to calculate a working fixed cost estimate—it will be a rough estimate, but it will provide a useful input for a conservative break-even analysis.

Illustration 2 shows a break-even chart. As sales increase, the profit line passes through the zero or break-even line at the break-even point.

**Illustration 2: Break-even chart**  


The illustration shows that the company needs to sell approximately 1,222 units in order to cross the break-even line. This is a classic business chart that helps you consider your bottom-line financial realities. Can you sell enough to make your break-even volume?

The break-even analysis depends on assumptions made for average per-unit revenue, average per-unit cost, and fixed costs. These are rarely exact. We recommend that you do the break-even table twice; first, with educated guesses for assumptions, as part of the initial assessment, and later on, using your detailed sales forecast and profit and loss numbers. Both are valid uses.